

**MEMO# 7812**

April 26, 1996

## **SENATE HEALTH INSURANCE BILL PERMITS PENALTY FREE WITHDRAWALS FROM IRAS AND QUALIFIED PLANS**

April 26, 1996 TO: PENSION COMMITTEE No. 13-96 RE: SENATE HEALTH INSURANCE BILL  
PERMITS PENALTY FREE WITHDRAWALS FROM IRAs AND QUALIFIED PLANS

The Senate recently passed amendments to S. 1028, the health insurance reform bill currently being debated in Congress. These amendments would permit certain penalty-free withdrawals from IRAs and qualified retirement plans. Specifically, these amendments would (1) permit individuals to make penalty-free premature withdrawals from IRAs, 401(k), 403(b) and 457 plans in order to pay for long-term care insurance premiums, (2) extend the medical expenses exception to the 10% early withdrawal penalty in Code section 72(t)(2)(B) to IRAs, and (3) except from the 10% penalty tax IRA withdrawals used to pay for health insurance premiums in cases where an individual has received unemployment compensation for 12 consecutive weeks. These provisions are the result of amendments offered by Senator Dole. The relevant statutory provisions are attached. The House companion bill, H.R. 3103, does not contain these provisions. Additionally, the House bill contains provisions that would establish medical savings accounts, while the Senate bill does not. It is unclear which provisions will remain in the bill that will be reported out of conference. We will keep you informed of developments. Russell G. Galer Assistant Counsel